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ANNUAL REPORT

Strawbridge & Clothier

FISCAL YEAR 1970 ENDED JANUARY 30, 1971

BOARD OF DIRECTORS

G. Stockton Strawbridge, *Chairman*

J. Clayton Strawbridge
Dwight G. Perkins
Robert E. Strawbridge, Jr.
Randall E. Copeland
Frank R. Veale
Winthrop deV. Schwab
James M. Gassaway
Francis R. Strawbridge, III
Peter S. Strawbridge
Robert E. Strawbridge, III

David W. Strawbridge

OFFICERS

G. Stockton Strawbridge . . . *Chairman of the Board and Chief Executive Officer*
Randall E. Copeland . . . . . *President and General Manager*
Frank R. Veale . . . . . *Executive Vice President for Operations and Personnel*
Winthrop deV. Schwab . . . . . *Executive Vice President and Treasurer*
Francis R. Strawbridge, III . . . . . *Vice President and Secretary*
James M. Gassaway . . . . . *Vice President for Planning and Development*
George L. Cullen . . . . . *Vice President for Personnel*
Mark Fisher . . . . . *Vice President for Publicity*
Kenneth J. Brownell . . . . . *Vice President and General Merchandise Manager*
George L. Compton . . . . . *Vice President and General Merchandise Manager*
Richard H. Hall . . . . . *Vice President and Controller*
John J. Leahy . . . . . *Vice President and General Superintendent*
Morris S. Hanson . . . . . *Vice President for Research*
Peter S. Strawbridge . . . *Vice President and General Manager Clover Division*

TRANSFER AGENTS AND REGISTRARS

GIRARD TRUST BANK, Philadelphia, Pa.
Transfer Agent *for the $5 Cumulative Preferred Stock and* Registrar *for the Common Stock*

THE FIRST PENNSYLVANIA BANKING & TRUST COMPANY, Philadelphia, Pa.
Registrar *for the $5 Cumulative Preferred Stock*

THE PHILADELPHIA NATIONAL BANK, Philadelphia, Pa.
Transfer Agent *for the Common Stock*

TO OUR SHAREHOLDERS:

For the fiscal year 1970, sales reached a record level of $145,001,436, an increase of 1.7% over 1969 sales of $142,541,853. Softening of the economy, resulting in a lower level of employment and a decline in consumer spending, had an adverse effect on retail sales generally.

Net earnings for 1970 were $5,425,243 compared to $5,671,328 in 1969, a decrease of 4.3%. Net earnings before adding $351,000 of income from sale of the company's Poplar Street warehouse, were $5,074,243 compared to $5,671,328 in 1969, a decrease of 10.5%. Development costs for the company's new Clover Division and pre-opening expense of the Echelon store in 1970, together amounting to $679,000 before giving effect to taxes, have been charged against earnings for the year. Earnings per share of Common Stock in 1970 were $4.18, inclusive of extraordinary income of $.28, compared to $4.38 in 1969, both amounts calculated on the number of shares outstanding at January 30, 1971.

On February 24, 1971, the Board of Directors declared a 3% stock dividend on the Common Stock, payable April 8, 1971, to shareholders of record at the close of business on March 11, 1971.

ECHELON

The company's eighth branch store at Echelon in Voorhees Township, Camden County, New Jersey, opened on schedule September 30, 1970, and is meeting our planned sales expectations. The mall at Echelon, the first two level, enclosed shopping center in New Jersey, containing 112 stores, will soon be the core of a large and exciting regional development on which The Rouse Company, with whom we developed Cherry Hill and Plymouth Meeting, is working. This planned community at the terminus of the Lindenwold High Speed Line includes townhouses and apartments already under construction with the eventual addition of commercial structures and recreational facilities for thousands of residents in this new and conveniently located suburban area.

EXTON SQUARE

On February 18 the company announced plans, once again in association with the Rouse Company, for the development of Exton Square in West Whiteland Township, Chester County, at the Exton crossroads where Routes 30, the Lancaster Pike, and 100, the West Chester-Pottstown Road, intersect. Here on 72 acres, the company will build its ninth branch store as part of a regional shopping center, truly unique in design conception. Strawbridge & Clothier, located in the exact center of the development, will be the only major department store, surrounded on all four sides by a covered mall, half of which will be on a lower level of parking and half on an upper parking level. Exton Square is scheduled to open in the latter part of 1972.

CLOVER

In October 1969 the company announced its decision to form the new Clover Division. Marlton Pike, the first Clover store, located on Route 70 just west of the Marlton Circle in Cherry Hill Township, Camden County, New Jersey, opened on schedule February 25, 1971. The customer response to this first Clover store in the short time since opening has exceeded our expectations and encourages the management to proceed with the orderly planned expansion of this new Division. Site work in preparation for the construction of Clover store #2 is already underway on the Black Horse Pike at Blackwood, Gloucester Township, Camden County, New Jersey. Plans call for opening the second Clover store in the fall of this year. It is our hope to build at least two Clover units each year throughout the decade of the seventies to adequately serve the Greater Delaware Valley area.

FUTURE GROWTH

The company continues to study additional branch store opportunities throughout our trading area and will aggressively pursue our objective of capturing a larger share of the consumer market available to department store retailing. At the same time, as noted above, we plan to move vigorously ahead in the expansion of the Clover Division.

ORGANIZATION CHANGES

At the Shareholders' Meeting on April 22, 1970, J. Clayton Strawbridge's retirement was announced as Vice President and Secretary for the company, an office which he had held since 1944. J. Clayton Strawbridge's career spanned fifty-three years of active association with the company. He was elected to the Board in 1938 and will continue to serve as our Senior Director.

At the same time, Francis R. Strawbridge, 3rd, Store Manager for Echelon, was elected a Vice President and Secretary.

On November 30, 1970 Timothy E. McNamara, Vice President for Merchandising, retired, bringing to a close a distinguished 45-year career in department store retailing, the last eighteen years of which were with Strawbridge & Clothier. He made a significant contribution to the growth and development of our company's business and his high degree of professional competence earned him a nation-wide reputation in the field. Mr. McNamara's responsibilities have been assumed by our two Vice Presidents and General Merchandise Managers, Kenneth J. Brownell and George L. Compton.

David Welles Strawbridge, Operating Superintendent of the Company, was elected to the Board of Directors on February 24, 1971. He graduated from Trinity College in 1962, completed the Executive Training Program at Bloomingdale's in New York and joined the company in 1964. Before being appointed as Operating Superintendent, he was Store Manager at Neshaminy.

OUTLOOK FOR 1971

The uncertainties of the future relative to the economic climate for 1971 in which the company will be operating are too many and too varied to make predictions for this year meaningful. Total company sales volume will be affected favorably by a full year's operation of the Echelon store, Clover store #1, and several months at the end of the year for Clover store #2. Constantly increasing costs of operation, together with the heavy expense burden associated with the development of the Clover Division, will be a continuing challenge to our management. The company, with its steady growth program, looks to the future with confidence.

IN APPRECIATION

Strawbridge & Clothier has long been noted for the superior character and quality of the Store Family. In behalf of the Directors we would like again to state that the Store Family is clearly our most highly prized asset. Their loyal, enthusiastic support and professional competence have made Strawbridge & Clothier a pleasant place in which to shop and a pleasant place in which to work. We have been told over the years that a unique spirit prevails within our organization that serves to set us apart. We sincerely believe this to be true and gratefully acknowledge the contribution made by every member of our Store Family to another successful year.

Respectfully,

Stockton Strawbridge
Chairman of the Board

Randall E. Copeland
President

March 31, 1971

FINANCIAL HIGHLIGHTS

	1970	*1969*
Net retail sales	$145,001,436	$142,541,853
Earnings before LIFO adjustment, taxes and extraordinary credit	11,150,954	12,987,803
LIFO adjustment—increase	366,711	576,475
Earnings before taxes and extraordinary credit	10,784,243	12,411,328
Taxes on income	5,710,000	6,740,000
Earnings before extraordinary credit	5,074,243	5,671,328
Extraordinary credit	351,000	—
Net earnings	5,425,243	5,671,328
Earnings Per Share on Common Stock (calculated on number of shares outstanding at January 30, 1971) including in 1970 an extraordinary credit of $.28 per share	4.18	4.38
Cash dividends on Preferred Stock	244,700	249,536
Cash dividends on Common Stock	1,485,037	1,391,627
Stock dividend on Common Stock	58,944 shs.	77,123 shs.
Net earnings retained for use in the business	3,695,506	4,030,165

	January 30, 1971	*January 31, 1970*
Current Assets	$ 56,858,023	$ 49,013,502*
Current Liabilities	14,567,772	13,440,404
Ratio of Current Assets to Current Liabilities	3.90 to 1	3.65 to 1*
Working Capital	42,290,251	35,573,098*
Long-Term Indebtedness	23,224,334	13,274,115
Preferred Stock	4,863,300	4,944,100
Common Stock Equity	59,997,407	56,278,728
Book Value Per Share of Common Stock (calculated on number of shares outstanding at January 30, 1971)	48.47	45.47

* Reclassified for comparative purposes.

STATEMENT OF CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

	Year Ended	
	January 30, 1971	*January 31, 1970*
Source of Funds		
Net earnings	$ 5,425,243	$ 5,671,328
Depreciation and amortization	2,737,477	2,324,563
Provisions for future income taxes and pensions	1,910,858	1,742,498
Increase in long-term debt	9,950,219	7,629,995
Decrease (increase) in other assets	317,166	(536,861)
	$20,340,963	$16,831,523
Application of Funds		
Cash dividends paid	$ 1,729,737	$ 1,641,163
Purchase of preferred stock	57,627	159,049
Additions to property, fixtures and equipment, less carrying amount of disposals	10,408,135	12,521,100
Increase in deferred charges	100,563	—
Amounts charged to reserves	1,327,748	848,406
Increase in working capital	6,717,153	1,661,805
	$20,340,963	$16,831,523

See notes to financial statements.

ACCOUNTANTS' REPORT

To the Shareholders of
Strawbridge & Clothier

We have examined the consolidated financial statements of Strawbridge & Clothier and subsidiary for the fiscal year ended January 30, 1971. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the fiscal year ended January 31, 1970.

In our opinion, the accompanying statement of financial condition and related statements of earnings, stockholders' investment and source and application of funds present fairly the consolidated financial position of Strawbridge & Clothier and subsidiary at January 30, 1971, the consolidated results of their operations, changes in stockholders' investment and the source and application of funds for the fiscal year then ended, in conformity with generally accepted accounting principles which have been applied on a basis consistent with that of the preceding year.

Philadelphia, Pa.
March 20, 1971

Ernst & Ernst

STATEMENT OF CONSOLIDATED EARNINGS

	Year Ended	
	January 30, 1971	*January 31, 1970*
Net retail sales, including leased department sales	$145,001,436	$142,541,853
Other income, net of other deductions	62,662	62,801
	145,064,098	142,604,654
Deduct:		
Cost of sales, including merchandise, alteration, occupancy and buying costs, exclusive of straight-line depreciation—Note C	102,845,388	101,349,114
Selling, publicity, delivery and administrative expenses	26,098,411	24,158,432
Depreciation and amortization	2,737,477	2,324,563
Pension cost—Note I	1,200,858	1,404,498
Interest on long-term debt	743,489	253,583
Interest—other	654,232	703,136
	134,279,855	130,193,326
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY CREDIT	10,784,243	12,411,328
Federal and state income taxes, including deferred taxes; 1971—$710,000, 1970—$338,000—Note F	5,710,000	6,740,000
EARNINGS BEFORE EXTRAORDINARY CREDIT	5,074,243	5,671,328
Extraordinary credit—Gain on sale of warehouse, less income taxes of $140,000	351,000	—
NET EARNINGS	$ 5,425,243	$ 5,671,328
Per share data applicable to common stock (based on common stock outstanding at January 30, 1971, after recognition of the dividend requirements on the $5 Cumulative Preferred Stock):		
Earnings before extraordinary credit	$ 3.90	$ 4.38
Extraordinary credit	.28	—
Net earnings	$ 4.18	$ 4.38

See notes to financial statements.

ASSETS

	January 30, 1971	*January 31, 1970*
CURRENT ASSETS		
Cash	$ 3,426,165	$ 1,846,694
Accounts receivable:		
Customers:		
Regular charge accounts	12,042,159	12,768,131
Deferred payment accounts	7,271,521	8,334,410
Flexible charge accounts—Note B	10,165,211	7,038,925
Suppliers and sundry	978,715	1,072,209
	30,457,606	29,213,675
Allowance for loss	1,000,000	900,000
	29,457,606	28,313,675
Merchandise inventories—Note C	19,833,378	16,585,573
Mortgage note installment receivable within one year	680,000	790,000
Prepaid expenses, supply inventories and sundry	1,747,404	1,477,560*
Recoverable costs in connection with leased property—Note D	1,713,470	—
TOTAL CURRENT ASSETS	56,858,023	49,013,502
OTHER ASSETS		
Notes receivable, secured by mortgages—receivable after one year	1,612,263	2,292,263
Cash on deposit with trustee for redemption of $5 Cumulative Preferred Stock—Note E	191,144	191,144
Other accounts receivable and sundry	522,634	129,800
Sundry investments, less reserve of $25,000	213,101	243,101
	2,539,142	2,856,308
PROPERTY, FIXTURES, AND EQUIPMENT—on the basis of cost		
Land	7,546,589	6,498,195
Buildings and improvements	37,559,589	32,576,687
Store fixtures, furniture and equipment	34,010,912	29,726,445
Allowance for depreciation (deduction)	(31,330,523)	(30,426,608)
	47,786,567	38,374,719
Construction in progress	—	1,741,190
	47,786,567	40,115,909
DEFERRED CHARGES	117,844	17,281
	$107,301,576	$ 92,003,000

* Reclassified for comparative purposes.

LIABILITIES AND STOCKHOLDERS' INVESTMENT

	January 30, 1971	*January 31, 1970*
CURRENT LIABILITIES		
Accounts payable	$ 8,203,585	$ 6,960,655
Accrued accounts	1,490,775	1,231,754
Payroll taxes and amounts withheld from employees	359,268	349,718
Federal, state and local taxes	906,667	1,822,347
Deferred taxes on income	3,062,969	2,781,000
Long-term debt due within one year	544,508	294,930
TOTAL CURRENT LIABILITIES	14,567,772	13,440,404
LONG-TERM DEBT—due after one year—Note G	23,224,334	13,274,115
RESERVES		
Future income taxes	1,725,999	1,497,508
Pensions—Note I	2,922,764	2,568,145
	4,648,763	4,065,653
TOTAL LIABILITIES	42,440,869	30,780,172
STOCKHOLDERS' INVESTMENT		
Capital Stock:		
$5 Cumulative Preferred Stock, par value $100 per share, redeemable at $105 per share—at January 30, 1971, authorized 50,263 shares; outstanding 48,633 shares, after deducting 1,630 shares in treasury (outstanding at January 31, 1970, 49,441 shares)—Note E	4,863,300	4,944,100
Common Stock, par value $5 per share—authorized 1,500,000 shares; outstanding 1,237,829 shares (outstanding at January 31, 1970, 1,178,885 shares)—Note H	6,189,145	5,894,425
Capital in addition to par value of shares	19,240,504	17,095,347
Earnings retained for use in the business—Note G	34,567,758	33,288,956
TOTAL STOCKHOLDERS' INVESTMENT	64,860,707	61,222,828
COMMITMENTS—Note J		
	$107,301,576	$ 92,003,000

See notes to financial statements.

STATEMENT OF STOCKHOLDERS' INVESTMENT

	Year Ended	
	January 30, 1971	*January 31, 1970*
Capital Stock		
Preferred Stock:		
Balance at beginning of year	$ 4,944,100	$ 5,130,600
Less shares acquired for treasury during year	80,800	186,500
	4,863,300	4,944,100
Common Stock:		
Balance at beginning of year	5,894,425	5,508,810
Stock dividend	294,720	385,615
	6,189,145	5,894,425
Capital in Addition to Par Value of Shares		
Balance at beginning of year	17,095,347	13,520,238
Add excess of amount charged against earnings retained for use in the business over the par value of Common Stock issued as stock dividend	2,121,984	3,547,658
	19,217,331	17,067,896
Add discount on acquisition of $5 Cumulative Preferred Stock	23,173	27,451
	19,240,504	17,095,347
Earnings Retained for Use in the Business		
Balance at beginning of year	33,288,956	33,192,064
Add net earnings for the year	5,425,243	5,671,328
	38,714,199	38,863,392
Deduct:		
Cash dividends on Preferred Stock—$5 per share	244,700	249,536
Cash dividends declared on Common Stock—$1.20 per share	1,485,037	1,391,627
Stock dividends declared February 18, 1970, and February 28, 1969—five and seven shares, respectively, for each one hundred shares outstanding:		
Paid April 9, 1970 and April 15, 1969, 58,944 shares and 77,123 shares on the basis of $41 and $51, respectively, per share	2,416,704	3,933,273
	4,146,441	5,574,436
Earnings Retained for Use in the Business	34,567,758	33,288,956
Total Stockholders' Investment	$ 64,860,707	$ 61,222,828

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE A—Consolidated Financial Statements

The consolidated financial statements include the accounts of the Company and its wholly-owned real estate subsidiary, S & C, Echelon, Inc., which was incorporated July 22, 1970. All intercompany transactions have been eliminated.

NOTE B—Flexible Charge Accounts

The flexible charge accounts receivable include Company's equity in accounts sold without recourse to bank—$556,781 and $777,672 in accounts aggregating $5,567,813 and $7,776,722 sold at January 30, 1971 and January 31, 1970, respectively.

NOTE C—Inventories

Inventories of merchandise on hand and in transit are priced at cost on the last-in, first-out method, determined under principles and by the use of published indices of price changes approved by the Commissioner of Internal Revenue with respect to department stores generally. Such basis of pricing resulted in aggregate amounts for inventories at January 30, 1971, and January 31, 1970, of approximately $4,850,000 and $4,490,000, respectively, less than the amounts which would have been determined under the retail inventory method without regard to last-in, first-out principles. Amounts for opening and closing inventories determined on the basis described above and used in the computation of cost of goods sold for the years ending January 30, 1971, and January 31, 1970, were $19,833,378 and $16,585,573, respectively.

NOTE D—Recoverable Costs

Under an indenture of lease, the Company has incurred costs in connection with the construction and equipment of a new store in Cherry Hill Township, Camden County, New Jersey, for which it will be reimbursed by the lessor (not to exceed $2,400,000) in 1971. The estimated annual rental relating to this store has been included in the total lease commitment set forth in Note J.

NOTE E—Sinking Fund

Sinking fund provisions of the $5 Cumulative Preferred Stock require that on April 1st of each year the Company shall redeem shares of such class of stock in an amount of par value equal to two percent of the greatest amount at any time outstanding after February 1, 1948, and prior to the date of such redemption. In compliance with such provisions, 2,541 shares of the $5 Cumulative Preferred Stock were redeemed on April 1, 1970, and retired June 9, 1970. Dividends on the $5 Cumulative Preferred Stock have been paid to January 1, 1971, a dividend date.

NOTE F—Investment Tax Credit

The investment tax credits available for the years ended January 30, 1971, and January 31, 1970, in the amounts of $70,000 and $274,000, respectively, have been applied in reduction of the annual provisions for income taxes.

NOTE G—Long-Term Debt—due after one year

Term and mortgage notes with interest at 3¾% to 9⅞% payable to banks, institutional investors and others are as follows:

	January 30, 1971	*January 31, 1970*
Term notes payable in ten to thirteen annual installments ranging from $55,000 to $200,000	$ 3,730,000	$ 3,985,000
Notes maturing in 1990 under a Note Purchase Agreement	5,750,000	—
Mortgage notes payable at $994,817 annually, including principal and interest, maturing from twenty-four to thirty years	12,816,047	6,530,070
Mortgage notes payable in 1972 ($843,665) and 1973 ($84,622)	928,287	759,045
	23,224,334	11,274,115
Notes payable to a bank	—	2,000,000
	$23,224,334	$13,274,115

NOTES TO FINANCIAL STATEMENTS (continued)

In accordance with the terms of a Note Purchase Agreement dated September 18, 1970, the Company issued notes aggregating $5,750,000 and $4,250,000 on September 24, 1970, and March 17, 1971, respectively. The Company will prepay $562,500 principal amount of the Notes on September 1 in each year during the period 1974 to 1989 inclusive.

The covenants of the most restrictive of these loan agreements provide, among other things, that while the loan remains unpaid the Company will maintain minimum working capital of $12,500,000 and that the aggregate after January 31, 1970, of payments of dividends (other than dividends payable in capital stock of the Company and cash dividends on preferred stock) and purchases of common stock will not exceed the sum of $4,000,000 plus the amount of earnings accumulated after January 31, 1970. The amount of earnings retained for use in the business and unrestricted by these provisions was $7,589,206 at January 30, 1971.

NOTE H—Stock Dividend

On February 24, 1971, the Board of Directors declared a dividend on Common Stock, payable in shares of Common Stock at the rate of three dividend shares for each one hundred shares outstanding. The dividend shares, not exceeding 37,135 in the aggregate (including option cards for fractional shares) are to be issued April 8, 1971, to holders of record at the close of business March 11, 1971. In connection with this dividend, the Board of Directors authorized transfers from Earnings Retained for Use in the Business to (a) Capital Stock, the sum of $5 (par value) for each dividend share, and (b) to Capital in Addition to Par Value of Shares, the sum of $30 for each dividend share.

NOTE I—Pension Plans

The Company has a noncontributory Retirement Benefit Plan providing for payment of pension benefits under specified conditions to eligible employees who retire with fifteen years of credited service. The Company makes charges annually for the pension costs accrued under this Plan. In addition, the Company has entered into employment contracts with certain key executives under a Deferred Compensation Plan which provides for payment of specified benefits upon disability, death and retirement. Since the adoption of the latter Plan, the Company has made an annual charge to expense in an amount considered adequate to cover the ultimate cost of such benefits.

The total expense for both Plans for the years ended January 30, 1971, and January 31, 1970, was $1,200,858 and $1,404,498, respectively, which included amortization of past service cost of the Retirement Benefit Plan over forty years. At January 1, 1970, the latest valuation date, the actuarially computed value of pension benefits for both Plans, which are not funded and which are expected to become payable to former employees who have retired and to present employees who are expected to receive pension benefits upon retirement, exceeded the balance sheet accruals at January 30, 1971, by approximately $7,000,000. The Company has reserved the right to amend or discontinue the Plans and all payments under the Retirement Benefit Plan.

NOTE J—Commitments

At January 30, 1971, the Company was lessee under major leases with terms, if renewal options are exercised, of not less than twenty years from the above date in each case. The annual minimum rentals under these leases is $2,368,386 plus, in certain instances, real estate taxes, insurance and similar charges, and increased amounts based on percentages of sales. During March 1971, the Company entered into an agreement for additional construction in the amount of approximately $2,000,000.

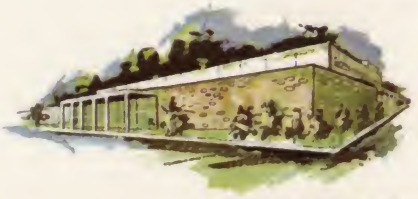
ON SEPTEMBER 30th, 1970, STRAWBRIDGE & CLOTHIER'S NINTH DEPARTMENT STORE OPENED AT ECHELON, THE FIRST TWO-LEVEL SHOPPING MALL IN SOUTHERN NEW JERSEY.

Strawbridge & Clothier is one of one hundred and twelve stores and shops that comprise Echelon, easily accessible by major highways as well as by the Lindenwold Hi-Speed line. Echelon, New Jersey's newest, most distinctive shopping Mall, is situated in a planned urban community where townhouses and apartments have already begun to rise, and which eventually will include commercial structures and recreational facilities for thousands of residents. Our Echelon store features all of our modern merchandising concepts and customer services accommodated in an unusually attractive setting.

ARDMORE—1930

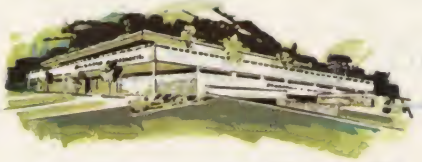
JENKINTOWN—1931

WILMINGTON—1952



CHERRY HILL—1961

SPRINGFIELD—1964



PLYMOUTH MEETING—1966

NESHAMINY—1968

ECHELON—1970

PHILADELPHIA

AT EIGHTH AND
MARKET STREETS
FOR OVER
ONE HUNDRED YEARS